# EBITDA/EBIT and cash flow based ICRs: A comparative approach in the agro-food system in Italy

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Abstract References Metrics

The interest coverage ratios (ICRs) are used to quantify the ability of firms to pay financial debts; ICRs are then considered by banks such as covenants in the financing term sheet, and are used by researchers and the rating agencies to estimate the probability of default of firms. Typically, ICRs calculation is based on profit margins, such as EBITDA and EBIT; EBITDA and EBIT approximate, but do not directly express, cash flows available to pay financial debts. The article aims to evaluate whether there are significant differences in results using ICRs based on EBITDA or EBIT and ICRs based on different definitions of cash flow (CF). The application is made to a sample of firms characterized by high absorption of capital operating in the Italian agro-food sector. The article highlights that there are statistically significant differences using ICRs EBITDA and EBIT based and ICRs based on different CF definitions.

**Keywords:**
EBITDA / EBIT based interest coverage ratios; Ital ian agro-food firms; debt repayment; operating cash flow



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